

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

Amendment IAS 12 - International Tax Reform - Pillar Two Model Rules Cover Note

Objective

- 1 The objectives of this session are to:
 - (a) provide a summary of the latest IASB's decisions based on the feedback received by the IASB in response to the ED International Tax Reform - Pillar Two Model Rules Proposed amendments to IAS 12 ('the Proposed Amendments'); and
 - (b) discuss and approve the Preparatory document of the Draft Endorsement Advice ("DEA") on the Proposed Amendments to IAS 12 attached in the Agenda Paper 02-02.

Background of the project

- 2 On 9 January 2023 the IASB published the Exposure Draft ED/2023/1 International Tax Reform-Pillar Two Model Rules (Proposed Amendments to IAS 12) ("the [ED](#)") with a comment period ending 10 March 2023.
- 3 The ED would introduce:
 - (a) a (mandatory) temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules; and
 - (b) targeted disclosure requirements:
 - (i) before; and
 - (ii) after the Pillar two model rules are in effect.
- 4 EFRAG published its [draft comment letter](#) on the ED on 30 January 2023. After extensive outreach with different stakeholders EFRAG submitted its [final comment letter](#) to the IASB on 13 March 2023. In its letter, EFRAG:

Temporary exception to deferred tax accounting

- (a) EFRAG overall supported the IASB's proposal to introduce a mandatory temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities arising from the OECD's Pillar Two Model Rules;
- (b) EFRAG highlights the urgent need of the proposed amendments to IAS 12. Hence, the proposed changes or clarifications should not lead to a delay in finalising the Proposed Amendments considering that it will take some

additional time to integrate the Proposed Amendments into local law in various jurisdictions (including the European Union);

- (c) EFRAG encouraged the IASB to clarify to which extent top-up taxes meet the definition of income taxes as defined in IAS 12 and whether top-up tax based on the Pillar Two model rules were in scope of IAS 12 in situations outside the context of consolidated financial statements of the ultimate parent entity;
- (d) EFRAG stated that disclosing that the entity is required apply the exception provides transparency about the fact that the entity might be impacted by top-up tax. However, EFRAG suggested that the IASB clarifies the underlying rationale asking for such a specific disclosure (e.g., it should inform users of financial statements whether the entity is in scope or not in scope of Pillar Two model rules), in view that this is an additional requirement compared to the general disclosure requirements in other IFRS Standards (e.g., IAS 1 Presentation of Financial Statements).

Targeted Disclosures

- (e) EFRAG supported the efforts of the IASB to define a disclosure approach that would provide information to users of financial statements to assess an entity's exposure to paying top-up tax that would not involve undue cost or effort. EFRAG proposed some changes to the IASB's proposals;
- (f) EFRAG encouraged the IASB to add a disclosure objective that describes the needs of users of financial statements;
- (g) EFRAG was of the view that the IASB should apply a more principle-based approach. The IASB should enable entities to provide their own quantitative assessment of their exposure to paying top-up tax prepared under Pillar Two model rules. This should be the primary option to meet the disclosure objective if an entity has reliable information;
- (h) If such Pillar Two information is not available or is not sufficient to meet the disclosure objective, an alternative quantitative estimate that satisfies the disclosure objective should be provided;

Transition, effective date and any other matters

- (i) The timing at which the Proposed Amendments will be published by the IASB is critical. The temporary exception is urgently needed for entities in scope of Pillar Two model rules;
- (j) EFRAG encouraged the IASB including in the main body of the Standard (i.e., in paragraph 98M (a) of the ED) the clarification included in paragraph BC27 highlighting that the Proposed Amendments, once effective, will be applicable to any financial statements not yet authorised for issue at that date. Such an approach would be consistent with that already applied by the IASB (e.g., paragraph C1C of the amendments to IFRS 16 'Covid-19-Related Rent Concessions beyond 30 June 2021' issued in March 2021); and
- (k) EFRAG recommends that the IASB schedules in its workplan an activity of review, so that the exception may be terminated, or retained as permanent, at the appropriate moment.

5 On 11 April 2023, the IASB was provided with a summary of feedback on the ED ([IASB's Agenda Papers](#)) and tentatively decided to finalise its proposals as detailed below ([Supplementary IASB Update April 2023](#)).

6 The IASB expects to issue the amendments in the second half of May 2023.

Temporary exception

7 The IASB tentatively decided to:

- (a) to introduce the temporary and mandatory exception to the deferred tax accounting without specifying how long the temporary exception will be in place;
- (b) to make no change to the scope of the temporary exception; and
- (c) to finalise the proposal to require an entity to disclose that it has applied the temporary exception.

Disclosure requirements

8 For periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, the IASB tentatively decided to require that an entity:

- (a) disclose information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation;
- (b) meet that disclosure objective by disclosing known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. That information does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity would instead be required to disclose a statement to that effect; and
- (c) disclose information about the progress the entity has made in assessing its exposure to Pillar Two income taxes to the extent information is not known or reasonably estimable.

9 For periods in which Pillar Two legislation is in effect, to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.

Effective date and transition

10 The IASB tentatively decided to:

- (a) require an entity to apply the temporary exception—and to disclose that it has applied the exception—immediately upon issue of the amendments and retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (b) require an entity to apply the disclosure requirements (other than the requirement to disclose that the entity has applied the exception) for annual reporting periods beginning on or after 1 January 2023; and
- (c) to specify that an entity is not required to apply the disclosure requirements (other than the requirement to disclose that the entity has applied the exception) in interim financial reports for interim reporting periods ending on or before 31 December 2023.

EFRAG FR TEG discussion

11 On 13 April 2023 EFRAG FR TEG members were provided with a summary of the latest IASB's decisions (please refer to the IASB discussion held on 11 April above). Members generally agreed with the IASB project direction and they did not express any relevant concerns to be considered for the issuance of the forthcoming endorsement advice. A representative of the European Commission confirmed that at that stage they had not identified any issue with the IASB's proposal to be specifically addressed in the endorsement request. The EC confirmed to send out a standard Endorsement Advice request without additional specific issues to consider.

12 EFRAG FR TEG made the following comments:

Temporary exception to the deferred tax accounting

(a) EFRAG FR TEG members supported the introduction of a temporary exception. However, a few members continued to express some concerns about the scoping, in particular, on how Pillar Two income taxes apply to situations outside the context of consolidated financial statements (for instance, separate financial statements or consolidated financial statements at group level).

Targeted disclosures

(b) EFRAG FR TEG members supported the inclusion of a disclosure objective to facilitate to provide relevant information and to apply judgement.

(c) A few EFRAG FR TEG members noted that the IASB decision of not including a backstop would put pressure on auditors and enforcers as it is difficult to discuss with an entity how reliable a piece of information is as it is a matter of judgement.

(d) A few members indicated that the IASB should not assume that top-up tax is not an income tax in situations outside the context of consolidated financial statements of the ultimate parent entity of a group. If it is not an income tax the disclosure requirements included in the proposed amendments to IAS 12 do not apply. The amendments should not be understood that there should not be disclosures at all. The basis for conclusions of the Amendments could encourage entities to disclose the judgement calls made by an entity to determine if a top-up tax is in the scope of IAS 12.

(e) One EFRAG FR TEG member noted that although we were aware of the direction of travel of the project we should wait with the publication of the preparatory document for the IASB's update to confirm the details. He further noted that the IASB's underlying expectation that many entities will be in a position to provide a reasonable estimate was not aligned with the feedback this member had gotten in his jurisdiction.

(f) One member indicated that the IASB should explain in the Amendments to IAS 12 what is meant by an entity's exposure to top-up tax at the end of the reporting period. According to paragraph 49 of the IASB's Staff paper 12B of the IASB's meeting of 11 April 2023, the information to be provided would not be forward-looking information. Instead, an entity should disclose what the impact on top-up tax would be if an entity had applied Pillar Two rules on that reporting period.

- 13 EFRAG FR TEG members will provide, by written consultation **by 20 April 2023**, their approval to recommend the Preparatory document of the Draft Endorsement Advice on the Proposed Amendments to IAS 12 to the EFRAG FRB.
- 14 The initial assessment in the EFRAG FR TEG meeting and based on the first responses from FR TEG members received indicates that the Proposed Amendments satisfy the criteria for endorsement for use in the EU and, therefore, their endorsement is recommended.

EFRAG envisaged workplan

- 15 The Preparatory document of the EFRAG’s Draft Endorsement Advice (“DEA”) on the Proposed Amendments to IAS 12 will be exceptionally prepared and published before publication of the Amendments in order to allow sufficient time to constituents to form a view on the endorsement of the Amendments.
- 16 The endorsement process is intended to proceed fast in order to allow constituents to benefit from the Amendments as soon as possible. Once the Amendments are officially published by the IASB, EFRAG will release its official endorsement advice to the EC following the usual approval process unless the Amendments introduce relevant changes. In that case, EFRAG will release a draft endorsement advice with a short reaction time for constituents. Hence the release of this preliminary version may help constituents in forming their view about the expected Amendments in a timely way.

EFRAG FR TEG written approval of the Preparatory draft of the DEA to recommend to the EFRAG FRB	By 20 April 2023
Upload of the of the Preparatory draft of the DEA to recommend to the EFRAG FRB meeting as recommended by FR TEG	By 21 April 2023 latest at 10am
EFRAG FRB approval of the Preparatory draft of the DEA	24 April 2023
Public consultation on Preparatory draft of the DEA	From 25 April to xx May (1 month)
EFRAG FR TEG approval of Final Endorsement Advice (FEA) to recommend to the EFRAG FRB	latest after 9 days after the Amendments are published
EFRAG FRB approval of the FEA	latest after 9 days after the Amendments are published
Publication of the Final Endorsement Advice	Latest 10 days after the Amendments are published

Questions for EFRAG FR Board

- 17 Does EFRAG FR Board has any comment or question on the decisions made by the IASB as detailed in paragraphs 7 to 10?
- 18 Does EFRAG FR Board agree to issue the Preparatory document of the DEA (contained in agenda paper 02-02)?

Next steps

- 19 The IASB's staff indicated in [Agenda Paper 12D Due Process](#) that the balloting process for the amendments to IAS 12 will commence in the near term, with the amendments planned for issue in the second half of May 2023.
- 20 Based on the preparatory draft endorsement advice consultation, EFRAG is planning to submit its endorsement advice (as illustrated in the table above) within 10 days after the issuance of the amendments to the European Commission.

Agenda Papers

- 21 In addition to this cover note, agenda paper 02-02 – *Preparatory document of the DEA and the Invitation to Comment*- has been provided for the session.